

Flying club organized for pleasure and recreation. A flying club of limited membership that provides flying privileges solely for its members, assesses dues based on the club's fixed operating costs and charges fees based on variable operating expenses, and whose members are interested in flying as a hobby, constantly commingle in informal meetings, maintain and repair the aircraft owned by the club, and fly together in small groups qualifies for exemption under section 501(c)(7) of the Code; Rev. Rul. 70-32 distinguished.

Advice has been requested whether, under the circumstances described below, a club qualifies for exemption from Federal income tax under section 501(c)(7) of the Internal Revenue Code of 1954.

The club owns and operates several small aircraft, which only members of the club may fly. Applicants for membership, which is limited, must be interested in flying as a hobby and must be approved by a two-third vote of the members in good standing at a regular meeting. Club planes are used only for recreational purposes. There is no paid staff or management. Members do the work required to maintain and operate the aircraft, under the supervision of elected officers. Occasionally outside experts may be hired for certain repair work. Officers earn two hours of flying time per month. Members earn one hour of flying time for each three hours of manual work on the aircraft, such as washing, polishing, changing tires, etc. The club's income is derived from membership fees, dues, and the sale of flying time to its members. Flying charges are established to meet variable operating expenses, whereas dues are based on fixed operating costs. Its only expenditures are for obligations arising from the ownership, operation, and maintenance of its aircraft.

Members are constantly in personal contact with each other by formal meetings of the board and the general membership, and by informal meetings to schedule the use of aircraft. Further, many are in contact to assist in training, to wash the planes, to inspect the aircraft and to make maintenance decisions regarding work to be done and who will be hired to do it, to ferry aircraft to service shops, to admit new members, to review and pay bills, to review financial reports, to handle delinquent accounts, to purchase or sell aircraft, to comply with FAA directives, etc. In addition, small groups of members also fly together in the club's aircraft.

Section 501(c)(7) of the Code provides for exemption from Federal income tax of clubs organized and operated exclusively for pleasure, recreation, and other nonprofitable purposes provided no part of the net earnings inures to the benefit of any private shareholder.

In order for a club to meet the requirements for exemption under section 501(c)(7) of the Code, there must be an established membership of individuals, personal contacts, and fellowship. Furthermore, a commingling of members must play a material part in the activities of the organization. See Rev. Rul. 58-589, 1958-2 C.B. 266, and Rev. Rul. 69-635, 1969-2 C.B. 126.

The facts indicate that the club is of limited membership, that the work of the club is shared among the members, and that there is constant person-to-person association among the members.

The fact that much of the work is done in small groups or committees does not alter the fact that the members are commingling in fellowship in pursuance of club purposes.

By flying and maintaining aircraft in the manner described above, the club members are jointly participating in the hobby of flying for pleasure and recreation within the meaning of section 501(c)(7) of the Code. Accordingly, the club qualifies for exemption from Federal income tax under section 501(c)(7).

This organization is distinguishable from the club which was held not to be exempt under section 501(c)(7) of the Code in Rev. Rul. 70-32, 1970-1 C.B. 132. In that case the club was open to all persons who were interested in flying. The members did not join to participate as a group in the hobby of flying for recreation, but to obtain economic flying facilities suitable for their individual business or personal use. The members had no expectation of personal relationship with the other members. The facts in the Revenue Ruling show that the club was operated primarily as a service to members, rather than for the pleasure and recreation of the members.

Even though an organization considers itself within the scope of this Revenue Ruling, it must file an application on Form 1025, Exemption Application, in order to be recognized by the Service as exempt under section 501(c)(7) of the Code. The application should be filed with the District Director of Internal Revenue for the district in which is located the principal place of business or principal office of the organization. See section 1.501(a)-1 of the Income Tax Regulations.